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THE NEW TARIFFISM

BY

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III
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"TRADE AND TARIFFS," "THE ECONOMICS OF PROGRESS," ETC.



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THE NEW TARIFFISM

I

THE BALFOUR COMMITTEE

THE Committee presided over by Lord Balfour of Burleigh was called to a difficult task. Before considering its recently issued Report, it is well to keep clearly in view the terms of reference set to it by the Asquith Coalition Government on its appointment in July 1916 :—

To consider the commercial and industrial policy to be adopted after the war, with special reference to the conclusions reached at the Economic Conference of the Allies, and to the following questions :—

- (a) What industries are essential to the future safety of the nation ; and what steps should be taken to maintain or establish them.
- (b) What steps should be taken to recover home and foreign trade lost during the war, and to secure new markets.
- (c) To what extent and by what means the resources of the Empire should and can be developed.
- (d) To what extent, and by what means, the sources of supply within the Empire can be prevented from falling under foreign control.

These clear issues cover all the main topics broached during the first two years of the war as to future trade policy ; and a set of clear answers to them would have been of great value. It was indeed unfortunate that the issues were all laid with a "special reference to the conclusions reached at the Economic Conference of the Allies." It is well understood that the proposals of the Paris Economic Conference were shaped as a counter-move to certain proposals then current in the Central Empires, contemplating an economic policy

that should penalize the trade of the Entente Powers. Those proposals, however, involving as they did a sacrifice of the trade interests of Austria-Hungary to those of Germany, found no acceptance in the former State, which was not prepared to put its producers at the mercy of the German market. The German scheme accordingly collapsed; and in so far as the Paris Proposals were a mere counterblast to the German they have no enduring significance. Yet the reference to Lord Balfour's Committee makes them determinants of all its recommendations.

Already in their First Interim Report, issued in November 1916, the Committee showed how their inquiry was thereby deflected. Instead of taking any of the special issues set to them, they dwelt upon the widespread desire for some early and definite statement of the intentions of His Majesty's Government as to "the treatment of imports into the United Kingdom from the present enemy countries in the period immediately following the conclusion of the war."

Obviously the very policy in question must to some extent turn upon the view taken as to Reference (a) which is, in brief: "What are the vital key industries; and what should be done about them?" But the Committee, taking the Paris Proposals to be virtual enactments, and entirely disregarding the express stipulation therein made that all the Entente Powers remained free to apply them "with regard to the principles which govern their economic policy," took for granted a change in our fiscal policy. The Committee indeed professed merely to assume that our Government "will decline to enter into any arrangement *which would deprive them of complete freedom* to treat goods from [enemy] countries *in such a manner as they might deem expedient* at any given time." It is tolerably safe to say that no State, unless thoroughly defeated, will bind itself in perpetuity by any commercial treaty; and even if it did it would presumably hope in time to be able to renounce the compelled arrangement. But the Committee really went much further than that.

Seeking in effect to compel the Government to lay down in advance an after-war tariff policy, they avowed the sur-

prising belief that "there will be little difference of opinion amongst the people of the United Kingdom upon the policy involved during the transitory period" (the very problem upon which the Committee were avowedly to go on to deliberate) as regarded "many questions affecting general trade policy." Then, without a word upon any of the four issues referred to them, they proposed that imports of enemy goods should, "for a period of at least twelve months," after the war, be prohibited, subject to licence "in exceptional cases." A minority of three members were at pains to plead that the term of duration of the prohibition should be left to the Government. The Committee were thus unanimous (that is to say, as the Committee was then constituted; members since added decline to endorse the proposal) for *some* term of prohibition—a sufficiently unpromising beginning, revealing as it did a total failure to realize what prohibition would involve.

II

THE INITIAL BLUNDER OF THE BALFOUR COMMITTEE

THERE is nothing to show or suggest that the Balfour Committee at that stage had formed any idea as to what the terms of Peace ought to be. It seems impossible to suppose that in 1916 they counted on a Bad Peace—a mere “draw,” leaving the belligerents in the *status quo ante bellum*. We are in effect bound to suppose that, little as they had evidently reflected on the probable or necessary sequel of a Good Peace, they counted on our obtaining it. They must have contemplated, that is to say, a Peace by which the Entente Powers exacted from Germany some reparation for the destruction she had inflicted upon Belgium, Serbia, and France. That is what we in this country commonly mean by “indemnities”; there can be few Britons who expect that Germany will finally be able to pay our war costs as well as her own. On the other hand, there seems no occasion to proclaim that we should refuse to accept any such payment.

But that is what the Balfour Committee in effect proposed. Nay more, they went as far as they could to vetoing *any adequate payment of indemnities by Germany to our Allies.*

When a body of business men and politicians such as composed Lord Balfour's Committee has demonstrably failed to realize the fact, it is necessary to make it plain to the general reader that adequate indemnities by Germany to any of the Entente States *can be paid only in German products.* The indemnity due to Belgium alone might reasonably be put, at the lowest, at £500,000,000. Such a sum

could not possibly be paid in bullion. If it could, it would merely impose upon Belgium the necessity of exporting most of the bullion to buy the *things* she will really require. No State has any use for bullion beyond the amount necessary to carry on its trade and commerce. Five hundred millions in bullion would be a white elephant for Britain, much more for Belgium. But the point need not be further discussed: Germany could not pay the sum in bullion, since she does not possess it.

The unsophisticated reader may perhaps reply that Germany might pay in "paper"—in bills, scrip, and so forth, as France paid much of her indemnity to Germany after the war of 1870-71. But in that case she would have to liquidate her paper in due course, as France did, mainly by means of exports of her products. For Germany did not in 1871 commit the absurdity of refusing to accept imports from France. She had no Balfour Committee; and she *wanted* French goods, in addition to those she had been able to loot. German "paper," in a word, would be valid (save as regards transfers of foreign scrip) only in so far as it was made valid subsequently by German exports.

In the meantime Belgium's immediate need being to get *goods* of all kinds—food, clothing, building material, trade material, machinery, furniture, metals, chemicals, everything in fact needed for her physical reconstruction—she would have to *buy* these things either from Germany or from her own Allies or from her neutral neighbours. That is to say, she would proceed to buy in all available markets; and in the period immediately after the war this would mean a raising of prices in all markets, *German traders participating in the advantage, in so far as they had anything to sell.*

Is this, then, the course of things desired by the Balfour Committee, or by the members who signed the First Interim Report? Whatever the German Government might think about its obligations, the German traders who were enabled by the Belgian demand to sell their goods at high prices might well say: "This is hire and salary, not revenge." The only inference open to us is that the Committee had never asked themselves what a German payment of indemnity

must necessarily mean, and had accordingly made their recommendation in a state of absolute blindness. Their plan of prohibition, which they clearly thought expedient for all our Allies, Belgium included, was to insist upon certificates of origin, and to give licences to import German goods only in "exceptional cases." If they had reckoned as such cases those in which goods were received by Belgium in payment of an indemnity by Germany, they would surely have said so. And in any case they were stipulating that *we* should take nothing from Germany by way of indemnity in the only way in which Germany could possibly pay us.

It is not comforting to our national self-esteem thus to realize that a picked body of our commercial and political advisers is on that side less alert than the German militarist Government would have been in the converse case. If Germany won the war, her rulers would *exact* from the Allies enormous payments in goods of all kinds of which they had need. They would not enact the absurdity of merely exacting scrip or paper promises to pay, and then buying what they required at enhanced prices. They would *take* food and goods, machinery, materials, ores, fuel, and anything else of which they had need. And seeing that even our own "man in the street" was already able in 1916 to see facts to the extent of proposing to exact from Germany "ton for ton" for the shipping she had sunk, there arises more pressingly the question why the Balfour Committee failed to perceive that not only for Belgium but for us it would be in the highest degree expedient to get German goods of certain kinds if Germany had them to yield.

The true answer is, probably, that the Committee looked at the question solely from the point of view of a few British traders who feared that if Germany were free to export goods to us after the war, *they* might chance to be undersold in the home market. There is really no reason to believe that even that would happen. It would certainly not happen as regards textiles or foods of any kind, or machinery, or finished manufactures, or metals, or yarns, or leather, or paper. Some think it might happen as to dyes—a point to be considered later. It might perhaps happen as regards

certain kinds of fertilizers. Is it, then, the sane course to stipulate that if Germany could be *made* to hand over to Belgium or to France or to us quantities of material useful in agriculture we should refuse in advance to take any of it ?

It is difficult to believe that the Balfour Committee would have denied, if it had been put to them, the expediency of *compelling*, if possible, Germany to pay indemnities to Belgium, and to any other Ally whose land she has devastated, in the form of (1) bullion, to the extent to which she has looted it, or they require it for their trade ; (2) coal and ores to the extent to which they need them for reconstruction ; (3) machinery and chemicals to the extent to which they can utilize them ; (4) furniture, to the extent to which they need it to start life again ; (5) building material and trade material in general to the extent to which Germany can supply it ; and (6) fertilizers for agriculture.

The Committee could not conceivably deny that Germany ought if possible to be made to *restore* goods she has actually looted. How, then, could they have denied the expediency of making her yield products to make good the destruction she has caused ? And if among the goods thus compulsorily exacted there were at times some which the Belgian recipients found they could not immediately use, and desired to sell to her Allies in order to obtain other requisites which Germany could not supply, would it be either a friendly or a sane course for us to reply : " Sell to neutrals if you will ; we will import nothing German—save in exceptional cases under a licence " ?

Once more, the Committee could not have taken up such an attitude. At that stage they had simply never contemplated such a possibility. They had merely contemplated the notion of buying, and had proceeded on the old British Tariffist assumption that when you buy goods from any one you are doing him a favour. The experience of all consumers of food during the war has perhaps done something to destroy that hallucination. But even if the ordinary British Tariffist is not yet able to conceive that when we buy we buy in our own interest, not in that of the seller, he can hardly refuse to believe that an exaction of goods from a

defeated enemy, such as that enemy would certainly make from us if he were the victor, is expedient in the case of devastated countries, needing all things.

If the Tariffist will only try to imagine himself told by his own Government that he *must* during a long period deliver for transmission to a victorious enemy large quantities of goods at a price fixed as low as possible by his own Government (for that is how an indemnity in goods would be paid), he will perhaps begin to see that the exaction of goods from a defeated enemy is *not* a way of helping the enemy's trade ; while the exaction of a " paper " indemnity will either mean that the paper cannot be realized or that the enemy who pays it over ultimately sells at the world's market price the goods he has to export to make his paper valid.

We may be told that the members of Lord Balfour's Committee were not at any stage all Tariffists ; that the noble Chairman and several of the members who signed the first Interim Report were avowed Free Traders. That is quite true ; but it only proves that in war-time even some Free Traders, whether or not supposing themselves to be under the compulsion of a popular sentiment, are capable of losing sight of the fundamental economic truths upon which Free Trade stands, and without support from which it would only be a faction-dogma like tariffism. But we are not at this point discussing Free Trade *versus* Tariff. We are discussing the express recommendation of the Balfour Committee that " enemy goods " should be refused entrance by ourselves and our Allies for " at least " a period of twelve months after the war ; and setting forth the utter absurdity of that recommendation from the point of view of the Allies in general and Belgium in particular.

It has indeed been darkly hinted in some quarters that Free Traders on Lord Balfour's Committee knew what they were doing, and were really circumventing the others by suggesting a one-year limit, which would amount to nothing in practice as regards normal trade, since more than a year would have to elapse before Germany could begin to sell products of any great value. But we cannot accept such an interpretation. All of us are bound to believe that the

Committee as a whole made its recommendation in entire good faith. What is challenged here is its good sense. It simply had not then thought anything about indemnities in kind. To stipulate that no indemnity goods should be paid over until "at least" a year had elapsed from the conclusion of peace is an absurd course from any standpoint.

If any one, further, should suggest (what the Committee has not in the remotest degree hinted for itself) that the members did not then believe in the possibility of getting any more for Belgium than would be represented by the actual cash in Germany, we must again decline to accept the suggestion. For the Committee were in effect urging that we should refuse in advance to have anything to do with any scheme for exacting an adequate indemnity from Germany; and whatever the members of the Committee may have thought of the possibilities, they cannot have supposed it to be their duty to veto indemnities in advance. They were, in fact, not thinking about indemnities at all; they were prescribing for trade, as is so often done, without trying to forecast the consequences all round. They avowedly hoped that the Government would straightway "reassure" traders by announcing in advance "at least" a twelvemonths' boycott of German goods after the war. Mr. Asquith's Government, having an eye for the considerations which the Committee ignored, of course made no such announcement, and the present Government has not yet seen fit to do so either.

But that was only the beginning of the Committee's counsels. The First Interim Report was quickly followed by a second (December 1916), dealing with British and Empire Exports. A third (February, 1917) put certain Resolutions with regard to trade relations between the United Kingdom and Overseas Possessions; and a fourth (March 1917) dealt with the question of "Essential Industries." These matters will fall to be dealt with separately hereinafter. What we have here to note is that the Final Report, which substantially embodies the others, briefly recapitulates, without discussing, the recommendations of the first (par. 7 and Chap. III), and yet contains this paragraph:—

We attach great importance to Resolution B 1 of the Paris Economic Conference being carried out in its widest sense. We are of opinion that the rapid reconstruction of industry and of our mercantile marine *will depend largely on the extent to which reparation is exacted in kind from enemy countries, and that this should be done as fully as possible.*

What then do the Committee *now* recommend? They urge that indemnities *in kind* should be exacted from enemy countries as fully as possible; and they also continue to recommend, as a policy for ourselves and our Allies, that no imports from enemy countries should be permitted for a period of at least twelve months after the conclusion of the war. Do they mean that, say, Belgium and Serbia should be allowed to receive enemy products, but not to export any of them to us, save in "exceptional cases"?

Resolution B 1 of the Paris Conference, to which they refer, runs as follows:—

The Allies declare their common determination to ensure the re-establishment of countries suffering from acts of destruction and spoliation and unjust requisition, and decide to join in devising means to secure the restoration to those countries, as a prior claim, of their raw materials, industrial and agricultural plant, stock, and mercantile fleet, or to assist them to re-equip themselves in these respects.

This declaration plainly points to both Belgium and France to begin with, and will properly cover also Italy, Russia, Serbia, and Roumania. All these Allies, then, are, if possible, to get German products by way of indemnity. Is it meant that *they* are not to receive any for at least twelve months after the war is over? It is inconceivable that the Committee would thus put its two propositions together. The materials will be wanted as soon as possible. But if all our continental Allies save Portugal are thus to receive German products as soon as possible, to what purpose do we stipulate that, even if they get any in excess of their immediate needs, they are not to offer them for sale in Britain?

Such products might very well include some of which we have special need—ores or chemicals or other materials for manufacture. One could understand a fear that an importation of some finished German manufactures might interfere

with the rapid resumption of work by some of our industries. But no such question is now raised by the Committee; and there is not a shadow of evidence that any German manufactures will be ready for trade export at the close of the war. Once more we are forced to conclude that the Committee have prescribed at haphazard, and that when they do finally take note of the all-important consideration which ought to have been in their minds at the outset, they have still failed to grasp the problem. If they do grasp it, it is surely their duty to explain how they reconcile their first and last pronouncements on prohibition of imports after the war.

Upon other problems they deliver themselves more intelligibly, and it is necessary to consider carefully their recommendations. But before doing this it is important to consider carefully the primary issues of war policy and peace policy, upon which all questions of fiscal policy depend.

III

THE CENTRAL PROBLEM: WAR AND PEACE POLICY

IT will be clear to every thoughtful citizen that for the Allies the lines of sound fiscal policy after the war must depend primarily on the nature of the peace secured. The nation undoubtedly will never submit to a German Peace, which would mean utter disaster, dishonour, and degradation. A triumphant Germany would not only extort ruinous indemnities, while retaining a direct hold on all the territories now under her power, and secure a further virtual control over all Europe, but would dictate to Britain trade terms in her own interest, real or supposed. A German Peace, in fact, would be the end of British as of European independence—a thing not to be submitted to while the nation endures.

But there may conceivably be a choice between a Good and a Bad Peace. A Bad Peace would be a substantial return to the *status quo ante bellum*, Germany making no amends for the vast and hideous devastation she has inflicted upon Belgium, France, and Serbia, and maintaining the military machine by means of which she has already brought civilization within sight of ruin. That this last is the cherished hope of her present ruling class may be gathered from the work of Baron von Freytag Loringhoven, Deputy Chief of the German General Staff, entitled "Deductions from the World War." Such a Peace would be so fraught with danger to the future peace and well-being of the world that it is not to be contemplated by the Allies so long as there remains the faintest hope of decisively defeating Germany

in the field ; and seeing that our grounds for such a hope remain extremely strong after the collapse of Russia has enabled the enemy to concentrate his whole strength against the Western front, the possibility of a mere *status quo* Peace might fitly enough be dismissed as outside discussion. It would in effect mean a continuance of crushing military burdens on the side of the Allies after fighting in the field was over. So long as the German Government continued to maintain its military system, none of the Entente Powers could abandon theirs. Conscription would thus remain as a millstone hung to the necks of all the Entente Powers at the very time that they needed all their energies for recuperation by industry. But it is important to note that this, and this only, is the situation which would justify a policy of systematic " commercial war " against the Central Powers.

Given a mere *status quo* Peace, it would clearly be the business of the Entente Powers to cripple German industry by all possible means and in particular to withhold from her to the utmost of their ability the raw materials under their control upon which her industry depends. American and Egyptian and African cotton, Australian and South African wool, American and British Empire copper and other ores, vegetable oils from British Africa—to say nothing of all forms of food—these it would be the business of the Entente Powers to withhold. But such a Peace would be so much worse for *commercial* Germany than for us that even militarist Germany could not well face it.

Such a policy, beyond doubt, is what the German Government and people chiefly dread as a result of the war ; and as the only alternatives are either (a) the abandonment of their military system, or (b) their decisive triumph in the field, they naturally carry on the war as long as they can hope for success. Defeat means for them *submission to disarmament* ; and therefore the one kind of Peace which is likely to be attained short of the utter prostration of one side is a *Peace of Disarmament, with some security for industrial life to the side defeated.*

That is to say, the commercial policy to be pursued by the Entente Powers in the case of military success *cannot* be

the same as that which would be incumbent on them in the event of a Bad Peace. Let the reader face the situation, and he cannot escape the conclusion. If Germany is to be faced *in any event* by deprivation of both raw materials and outside foodstuffs, she has no more motive to Peace than we and our Allies have while she remains in undefeated possession of the territories she has seized. A Peace under which she was denied nearly all outside raw materials—even if she had access to those of Siberia—would as clearly spell ruin for her as a German Peace would for us. Unless, then, we can count upon an absolute Napoleonic conquest of Germany—a conquest such as she herself had vainly hoped to compass against France and France's Allies—we must contemplate a Peace to which her people can submit as leaving them something like hopeful national existence. And a Napoleonic conquest of Germany would certainly be a difficult matter, even after the German armies had been driven back to their own frontiers. It is not a question of abstract right or wrong. The German nation has forfeited all international rights, if ever a nation did. It is a question of expediencies and possibilities.

A Peace whereby the Entente Powers shall *dictate disarmament* to Germany, and so secure the future of civilization, can, we trust, be secured. But to secure it by a complete Napoleonic conquest of all German territory is an undertaking that would probably mean a very great prolongation of the war, with a prospect of extreme exhaustion to victors as well as vanquished. Given, on the other hand, the prospect to Germany of a real Peace, under which, while compelled to disarm and to make good to some extent the vast material destruction she has wrought, she could resume industrial life with some hope for the future, it would be at least worth the while of the German Government and people to accept defeat. That is the main international issue, in a nutshell.

Any one on the Entente side who declares for a policy of perpetual exclusion of Germany from use of the raw materials controlled by us and our Allies is simply declaring for an indefinite continuation of the war, and thereby in all probability putting in great jeopardy the Good Peace which we all desire.

Such a declaration of policy would be an announcement to Germany that she may as well go on fighting till she is utterly destroyed, the sole hope left to her being that of exhausting her enemies as far as may be before she is wholly trodden down.

That such a policy should be contemplated by the Allied Governments is inconceivable. It is expressly negatived by the repeated declarations of President Wilson. But it is equally negatived by common sense. The measure and aim of the policy of the Allies is not to be drawn from the insane dreams harboured at the outset by the enemy. For them to harbour such a dream in turn would be for them in turn to become nationally insane. As their own war policy was just and imperative, so their peace policy must be rational. A policy which leaves it worth the while of Germany to submit is not the futile pacifist policy of relying on the goodwill or aspirations of the small German minority opposed to militarism. The sane policy will secure disarmament by giving a defeated Germany the choice between submission with a chance of industrial life and a "Peace" of despair with no hope of industrial recuperation.

In a word, the permanent withholding of raw materials from Germany is only the last weapon of the Entente Powers in the event of a Bad Peace. Let it, then, be clearly so described. Even when the case is so put, the German Government will doubtless fight as long as it can hope for positive military success. The point may be near when that hope will vanish. Then the time will come for negotiation—a negotiation in which the Allies will hold the whip hand. A German Socialist lately wrote that "if Germany does not lose the war, she has won it; if Britain does not win the war, she has lost it." As regards Germany the statement is an idle falsity. If she does not positively win the war she will be shut out from the raw materials most vital to her industry. A *status quo* Peace would leave Britain with her present access to raw materials; and in that access her Allies would participate. For German militarism there is no hope save in the destruction of the independence of all Europe. The aim of the Allies is the destruction of German

militarism, not the destruction of German national life, in which they have no desire to meddle once the military machine is dismantled.

That Germany thus gets, at what is for her the military worst, a much better fate than she would have allowed to her antagonists, lies in the nature of things. Her rulers would gleefully have broken the wings of humanity if they could. Any adequate "punishment" of their crimes is wholly impossible, within the limits of civilization. Punishment of the criminals by a mere systematic and perpetual starvation of the mass of the German people in "peace" is a plan not conceivable by the Government of any State in the Entente, frightful as have been the sufferings of some of them at German hands. If they are ever forced to it, it will be as a military measure as against a still militarist Germany.

There remains to be considered the question of the *sharing* of the world's supply of raw material in the event of the submission of Germany to disarmament. Upon this the Balfour Committee make an important pronouncement. Recapitulating the proposals of the Second Interim Report, they submit (pars. III (1) and 118):—

Any general prohibition of exports to present enemy countries after the war, and any continuance of the system of rationing neutral countries, are impracticable and inexpedient; but the Paris Resolutions can be carried into effect if a policy of joint control of certain important commodities can be agreed upon between the British Empire and the Allies for the Transitional Period. Any measures should aim at securing to the British Empire and the Allied Countries priority for their requirements, and should be applied only to materials which are mainly derived from those countries and will be required by them. . . .

The primary need will certainly be to secure to the country adequate supplies of foodstuffs and raw materials for industry and their fair distribution. For these purposes it will almost certainly be necessary that at the outset the Government should continue to control the allocation of tonnage. . . .

Now, in the event of the Good Peace being attained, these recommendations will have to include the Central Powers.

Unless they are to begin to share with the others to some extent such raw materials as are available, they are left without motive to make peace. If they are told that they must wait for any supplies until the needs of the Allies are completely met, they are being offered only Peace with Ruin, leaving no security for the resumption of supplies at any time. Disagreeable as may be the thought of sharing anything with them, it is a plain condition of any Peace, unless we can achieve a Napoleonic conquest. And on this footing of a policy of sharing, the German mercantile shipping that will be in existence at the close of the war may be made available for all the world's needs. It is an obviously reasonable condition that if disarmed Germany is to share in the world's supplies she must take her share in the burden of distributing them. A "ton for ton" restitution would be more acceptable; but that appears to be conditional on complete conquest.

It remains to consider how we are to deal with German exports in the normal way of trade.

IV

FISCAL POLICY AFTER PEACE

IF Germany is to be allowed to import after the war, subject for a time to international control, whatever she is able to buy, the question of Allied Fiscal Policy as regards our reception of her *exports* is not one that need greatly concern her, save indeed so far as Britain may elect to damage her own commerce by resorting to a tariff. As regards Germany's relations with the rest of the world, she can be made to suffer commercially only so far as other countries inflict loss upon themselves. Those who refuse to give her most-favoured-nation treatment will not get it from her : that is the end of the matter.

A policy of prohibition of her goods by the Allies for one or more years, as we have seen, can have no terrors for her : on the contrary, it would mean for her a vital triumph, in that she was not only not being compelled to pay an indemnity but was told she would not be allowed to pay it ! That policy, we may assume, will never be resorted to save as one of the weapons of a Bad Peace, which it is not here proposed further to consider. But it very much concerns the British people to realize what is for their own interest in the matter of international fiscal policy. Obviously, tariff policy is not such a condition of Peace as is a participation in the supply of raw materials. Germany had a tariff policy of her own before the war, and she cannot expect any of the Entente Powers to alter theirs in her favour. As to details, she must just bargain with them individually as she did in the past. For Britain the supreme question is : Shall we or

shall we not continue our policy of Free Imports of all goods not taxed for purely revenue purposes ?

The Balfour Committee deal with the problem as with others, and in Chapter IX, paragraph 212, they thus approach it :—

We cannot conceal from ourselves that in formulating any proposals on the subject we are running the risk of a revival of controversy on the old lines. Such a revival would be a very real disaster if it caused any serious change in the nation, and thereby tended to accentuate the difficulties of reconstruction after the war. . . . A reconsideration of the whole problem is, however, made inevitable by the fact that, whilst the economic strength of the country has so far borne with remarkable success the strain upon our material and financial resources resulting from an unparalleled war, *certain defects in, and dangers to, the great fabric of British industry have been revealed ;* and by the further fact that in our opinion *those defects and dangers can be removed, and their recurrence guarded against,* only by a fresh examination of what has hitherto been our national policy.

We have endeavoured in our consideration of this very difficult subject to avoid as far as possible any renewal of pre-war discussion on general principles, to have regard only to the best interests of the nation, and to base our conclusions upon unprejudiced examination of the actual facts of the situation *in the light of the experience of the past three years,* with a view to the framing of a practical policy which will be likely to obtain the support of at least the great majority of the people of the country.

The anxious avoidance of “ general principles ” is not very promising, and the profession to fix a fiscal policy for peace time “ in the light of the experience of the past three years ” is still less so. But let us see how the Committee set forth the “ defects and dangers of our Free Trade policy, and provide for their removal and non-recurrence.

They proceed to set forth five “ propositions ” as to the bases of future British economic policy which, they believe, will “ meet with general acceptance.” The first deals with “ pivotal industries ”—a question to be discussed later. The others run :—

2. Some Government assistance should be given to industries, other than those mentioned above, which are important for the maintenance of the industrial position of the United Kingdom, where such assistance is *proved to be necessary* because of the *inability of*

the industries to maintain themselves by reason of undue [!] foreign competition, inadequate supplies of raw material, or any other causes.

3. A serious attempt should be made to meet the declared wishes of the Dominions and Colonies and of India for the readjustment and development of their economic relations with the United Kingdom.

4. An effort should also be made to develop trade between the British Empire and our Allies.

5. *Subject to agreement with our Allies in the matter*, present enemy countries should not for a time at least be allowed to carry on trade with the British Empire in the same unrestricted manner as before the war, or on terms equal with those accorded to Allies or Neutrals.

Leaving for later consideration proposals 2, 3, and 4, as well as the first, we have to consider carefully the fifth. At the outset, let it be clear that we are not concerned with the interests of Germany. There is no question of "charity" involved. Germany is entitled to none at our hands. But let it be remembered, though the majority of the Balfour Committee appear to forget it, that *British Free Traders in the past have always advocated Free Trade, first and last, on the ground that it benefited us, not that our freedom benefited other nations*, though they also claimed that it made for the well-being of the whole world. And let us put one or two questions:—

1. The Committee avow that we have borne the financial strain of the war wonderfully well. That is to say, Free Trade finance has been a great success. Can the same be said of German, French, Russian, or Italian finance, all resting upon tariff systems?

2. Is it pretended that the industrial system of any tariff country is free from "defects and dangers" as compared with ours?

3. If such defects and dangers in our case are the reasons for urging a resort to a tariff policy, is it further suggested that the imposition of special burdens on *German* trade in particular will be specially helpful in remedying the evil?

To the first and second questions Tariffists may be left to reply, if they can. To the third, it is soon apparent, the Committee have no satisfactory answer to give. Evolving

their plan of tariffs, they suggest first that preference be given (a) to products of the Overseas Empire which are subject to revenue duties in the United Kingdom; and (b) to manufactured articles coming thence which are competed with by imports from foreign countries—"some small duty" being suggested in this case. Then, recognizing that as regards our Allies the Paris Proposals have not even been ratified by all the Governments represented; that the policy of the United States cannot be forecasted; that many Allies and semi-Allies have come in since the Paris Conference; and that the "justice or expediency" of penalizing Neutrals is doubtful, they conclude that if all the Allied and pro-Ally nations of the world are to have preferential treatment at our hands, the one way to do it is "by the simple imposition of duties upon all goods imported from present enemy countries—a course which we recommend" (par. 244, end).

Obviously it cannot for a moment be pretended that *this* is a course directed specially against the alleged "defects and dangers" of our Free Trade policy. It is simply a plan for giving a preference to everybody but the enemy countries; and it will involve giving preference to many countries which compete vigorously with our industries. The Committee avow (par. 233) that "the competition of Japan will have to be increasingly reckoned with"; and this plainly holds good of a dozen other Allied and neutral countries. The special tariff on enemy goods, then, is not a trade measure in the sense in which the Committee say we need trade measures; it is either a matter of mere unprofitable penalizing of the enemy, or of making disadvantage to the enemy a means of conciliating Allies and Neutrals.

Now, there can be no general objection to a penalizing of enemy trade by tariff, *provided that it does not in so doing penalize our own*. But that is precisely the problem that the Committee fail to face. They do not even attempt to show that our "defects and dangers" operate solely or specially on the German side. And when they make Imperial Preference the foundation of their proposed tariff system, they evade the primary objection—implicit in their argument—that such a preferential system will affect our relations

with others. Allies and Neutrals alike will receive, under this system, less than "most-favoured-nation" treatment. As regards any penalizing of Neutrals, the Committee avow "the danger of driving them into an economic alliance with the Central Powers." But all the while they are proposing a step in that direction, affecting not only Neutrals but Allies.

The one apparent plea in vindication of their proposal is that it is "a very little one." Imperial preferences are to be given only on (1) articles already subject to revenue taxes—as tobacco, wines, spirits, tea, coffee, cocoa, and sugar; and (2) by way of "some small duty" on imports from foreign countries of partly manufactured articles, such as refined metals. If, however, these preferences are to satisfy, *pro tanto*, those Overseas British subjects who demand preferences, they must be made fairly effective. We shall then be taxing French and Italian wines more heavily than Australian; Chinese tea more heavily than Indian; Dutch coffee more heavily than Imperial; American tobacco more heavily than Egyptian and South African; Cuban and Dutch sugar more heavily than any produced within the Empire; and all foreign alcohols and refined metals and other tariffed manufactures more heavily than those imported from our own Overseas Possessions.

It is extremely unlikely, to begin with, that such a policy will really satisfy those Canadians and Australians who ask for home preferences. As Mr. Chamberlain put it at the beginning of his tariff campaign, Imperial Tariff Preference, to be worth while, must mean the taxation of our imports of food. Some of his followers soon went the length of proposing to tax certain raw materials on import. But even if our kin beyond the seas are satisfied with "some small duty" on some few partially manufactured articles and preferences for Indian tea and Australian wine and such things, such preferences are quite enough to raise discontent among both the Allies and the Neutrals against whom we differentiate.

Suppose Germany turns to both Neutrals and Allies with this proposition: "You see that England is already penalizing you in favour of her own Possessions; we offer you

most-favoured-nation treatment," what is to prevent their closing with her offer, and so giving to her trade with them all the advantage which tariff preference can confer?

France, it may be said, will not do this, provided that we give her the advantage of a preference over Germany for her manufactures. But, as the Balfour Committee very candidly avow (par. 243), "it is a question how far a temporary community of political interests—and even the long duration of such a community of interests, as we may hope for in some cases—can in itself afford a secure basis for a permanent commercial policy." Then there are the other Allies. Will Italy reject all the temptations to a most-favoured-nation trade with Austria and Germany? *Can* Russia refuse them? And *will* the United States adopt any penal policy towards Germany trade in the event of a Good Peace—especially if we begin by discriminating against some of her products in favour of our own Dominions?

In a word, the policy of a special tariff against enemy countries by way of preference to Allies and Neutrals is not co-ordinate with one of Imperial Preference. The advantages offered to Neutrals and Allies as against Germany may or may not balance the disadvantages to them of our preferences to our own Possessions, in the case of Germany offering them better terms than ours. And all the while, not the slightest reason has been given for supposing that our interests as a whole will gain by specially tariffing German goods.

Here again it is specially important to set out with clear ideas. None of us wants to trade with Germany for Germany's sake. None of us wants to buy a German article where any other will do nearly as well. After four years of frightful war, forced on the world by German action, the people of this country at least will long be loath to resume dealings with the guilty nation. Not till the guilty generation has passed away, perhaps, will the loathing die out; and for years to come, whatever be our fiscal policy, trade between us and Germany will be far below its old level. But there is all the difference in the world between the simple play of national repugnance, of just resentment, and the enactment of fiscal machinery that aims at the restriction or exclusion

of German imports, irrespective of their possible utility to us. *And it is only goods of special utility to us that we are likely to import in any quantity worth dealing with.*

Suppose, for instance, that Germany produces an important new scientific instrument, an important machine, a new drug, or dye, or chemical. Are our men of science and manufacturers to deny themselves the knowledge or use of it? Suppose again that German fertilizers should be found to be the most advantageous for our agriculture, are we to refuse to increase our agricultural output by that means? It is hardly necessary to put the question. Those who propose a tariff on German goods *expect that we shall buy German goods.* If they wanted to exclude them they would propose exclusion. The Balfour Committee only proposed prohibition for a period of "at least twelve months;" and that proposal, as we saw, was made without a thought of the question of indemnities in kind, which the Committee now avowedly desire.

And in that connection we have again to ask a question. Supposing that the payment of indemnities by Germany should go on for years—as indeed it must if the indemnities are to be at all adequate—what would be the effect of our putting import duties upon any such indemnity goods which might come our way? Simply to raise the price of them to ourselves, without in any way affecting German trade. We should only be helping the trade of Allies and Neutrals at our own expense. And all the while the Balfour Committee avow (par. 231) that "all elements of high-class production" ought to be "available at bedrock prices, without any avoidable addition of imposts, freights, or interest charges."

Obviously this is a rebuttal of any inference that may be drawn to the effect that when they point to the restricted production of iron and steel in Britain in recent decades of peace as compared with the output of Germany and the United States, they are indicating a defect or danger which is to be cured by import duties. A tariff which should in future force the maximum possible production of British iron and steel would be one which made British iron and steel

dearer. There is no escape from the dilemma. It is one that need never have been set up, for a slow rate of exhaustion of our iron ores is in no sense a defect or danger in our national life. While our tariffists clamour for a more rapid exhaustion, American economists are pointing out how thriftless is the rapid exhaustion that has gone on in the United States, and exhorting their countrymen rather to import than to export iron. Germany, which has far more iron ore than we, is an importer as well as an exporter of ore. But that side of the matter need not detain us. The immediate and decisive issue is the avowal of the Balfour Committee that bedrock prices for all elements of high-class production are absolutely essential to the prosperous resumption of British industry.

Such candid avowals indeed suggest that the majority of the Committee, despite their obscure phrase about "defects and dangers" in the fiscal policy of Free Trade, are not at all enamoured of a tariff policy. Their arguments are nakedly political, not economic. At no point do they claim that a special import duty on German goods will cure any of our trade troubles. They are evidently more concerned about American and Japanese competition than about German. Their proposals in the way of Imperial Preference are calculated to satisfy neither Imperialists at home nor Preferentialists in the Dominions. Apart from their recommendations about "essential industries" and some others, their entire programme savours much more of a concession to supposed public sentiment than of a belief in any need for industrial protection or in any gain to be reaped from it. It seems well, then, to reflect soberly as to both Imperial Preference and an anti-German tariff before assenting to the Committee's apparent assumption that on these heads there is some prevailing sentiment to which the Legislature ought to bow.

Much might be said, incidentally, as to the special practical difficulty of working a tariff directed against a single nation—a point to which the Committee appear to have given no attention. It may reasonably be taken as certain that such a tariff will at once set up a roundabout traffic, in which German and Austrian goods will be offered as the products of one or other of the neighbouring countries. A finishing

process would entitle them to be so offered and certificated. Further, German capital, which before the war was largely at work in neighbouring countries, could resume operations there ; and goods actually sold for the profit of German capitalists could be indisputably described as of Scandinavian, Dutch, or Swiss production. The anti-German tariff, then, would in all likelihood be an utter fiasco if it were established. But Free Traders can afford to waive that rebuttal, for the sake of establishing the more fundamental propositions of their case, which is not merely that the schemes under notice would not work, but that they would do no good if they did. And this holds very clearly of the scheme of Imperial Preference put forward by the Balfour Committee.

IMPERIAL PREFERENCE AND ITS MOTIVES

THERE is another side to Imperial Preference, which is brought into notice by a pronouncement of Mr. Lloyd George, as Premier, and of Mr. Bonar Law, as Chancellor of the Exchequer, under date April 27, 1917 :—

“ We believe,” said the Prime Minister, “ that a system of Preference can be established without involving the imposition of burdens upon food. We believe it can be done without that ; and, of course, when food is at its scarcest and dearest, that is not the time to talk about additional burdens upon it.”

And Mr. Bonar Law stated on the same day that “ the resolution of the recent Imperial Conference does not involve the taxation of food.” What that resolution was, we learn from a speech by Sir Robert Borden, as Prime Minister of Canada, on May 18, 1917. Explaining that it had been introduced in the first instance by Mr. Massey at the Imperial War Conference, and afterwards, with some amendments, approved by the War Cabinet, he gave it as follows :—

“ The time has arrived when all possible encouragement should be given to the development of Imperial resources, and especially to making the Empire independent of other countries in respect of food supplies, raw materials, and essential industries. With these objects in view this Conference expresses itself in favour of—

“ 1. The principle that each part of the Empire, having due regard to the interests of our Allies, shall give specially favourable treatment and facilities to the produce and manufactures of other parts of the Empire.

“ 2. Arrangements by which intending emigrants from the United

Kingdom may be induced to settle in countries under the British flag."

On the second point it is unnecessary to speak here. As to the first, we may infer that the idea of "specially favourable treatment" coincides to some extent with the modest proposals of the Balfour Committee. But as to the facilities we have elucidation from Sir Robert Borden's speech. The resolution, he explained, "does not necessarily propose, or even look to, any change in the fiscal arrangements of the United Kingdom. It does not involve taxation of food: *it does not involve taxation of anything.*" The "specially favourable treatment," in short, resolves itself into "facilities," as Sir Robert explains:—

"What this proposal looks to, as I understand it, is this—that we can within this Empire get better and cheaper facilities of communication than we have enjoyed up to the present time. That, I believe, is the line along which the change indicated will proceed. . . . We know that before the commencement of the war the cost of transportation across the Atlantic increased twofold or threefold. There was sometimes a dearth of ships. I hope and believe that there will be concerted action and co-operation between the Government of the United Kingdom and the Governments of the Overseas Dominions, by which speedier, better, and more economical transportation will be provided between the Mother Country and the Overseas Dominions, and between the Overseas Dominions themselves."

This in itself is not absolutely explicit as to "preference," but taken in connection with Mr. Lloyd George's pronouncement of three weeks earlier, it appears to point unmistakably to a plan of subsidized shipping, which shall convey the produce of Canada to the United Kingdom more cheaply than the produce of the United States is carried, at any given time. Without this advantage to Canadian over United States produce, there would be no "preference" in the case. But such preference, if it should operate as proposed, would of course be as real an advantage to the Canadian producer as a preferential tariff in his favour on corn.

Such schemes are commonly justified on the score of the magnificent service that has been rendered to us by Canada,

as by our other Dominions, during the present war. As to that there is no possibility of dispute. No more noble help has ever been rendered by one State to another than we have received from our kin beyond seas in the war which the enemy expected to begin the break-up of the British Empire. But, just because the aid has been so splendidly whole-hearted, some of us recoil from the thought of seeming or affecting to reward it by certain trade advantages. Can such service be so paid for?

It was with just some such plea of a need for "binding the Empire together" that Mr. Chamberlain began his tariff campaign in 1903. He and his followers professed to believe that without the tie of a special profit on their trade with the Mother Country, the Dominions would ere long want to break away from her. The proposed tie has never been set up. The Dominions have nevertheless not only remained "loyal": they have rendered unstinted comradeship in Britain's hour of utmost need. Is it plausible, then, *now* to argue that special profits or perquisites are required either to "bind the Empire together" or to reward the Dominions for their magnificent rally to the common cause? Would not the noble comradeship remain the nobler in its aspect without the paraded "reward"?

That is not the only demur aroused by the scheme. Help has come to us not only from our Dominions. Just at the moment when the defection of Russia was being predetermined in the chaos of her Revolution, there came to our side a mightier Ally, the United States. It is no straining of probabilities to say that that advent may prove to be the determining factor in the victory of the Entente Powers. On any view, the succour which the United States has rendered us all—in finance, in men, in munitions, in food supplies, all given with a splendid ardour of self-sacrifice—is something unsurpassed and unforgettable.

Are we, then, to say to *that* Ally, as soon as the war is over: "Blood is thicker than water: Empire trade is more precious than the goodwill of Allies: we accordingly propose to establish a subsidized line of steamships to carry goods between Canada and Britain at lower rates than those charged

for the time being in the open market for freights between Britain and the States " ?

To say the least, the course proposed would seem to be bad politics : to put the point more strongly, it would be unworthy of a great nation. But it would be worse than a baseness : it would be a blunder unworthy of the veriest nation of shopkeepers. *If Great Britain sets up a line of subsidized steamships to carry Canadian produce cheaper than that of the United States, on the very next day the United States will set up another subsidized line to carry their produce as cheaply or more cheaply still.* The States have had much more experience than we in the subsidizing of lines of shipping, and they will have plenty of politicians ready to take up such a challenge if we are foolish enough to throw it down.

The Scheme accepted by the War Cabinet, like the advice given by the Balfour Committee in its First Interim Report, has been framed without any attempt to forecast the contingencies. Mr. Lloyd George and Mr. Bonar Law have adopted it as an easy way out of the dilemma set up by the general notion of Imperial Preference. Like the Balfour Committee, they see that food taxation is more than ever out of the question after four or more years of dear and scarce food ; and they know that nothing but import duties on food and raw materials can yield much advantage, in the fiscal way, to Canadians and Australians. Subsidized shipping presents itself as a happy compromise, and it is jumped at without a thought of the consequences it entails.

It is in a way astonishing that men conversant with business should thus overlook the inevitable implications of their proposals in matters fiscal. But that is what business men are constantly doing when, seeing only by the light of sectional interests, they plan for legislative or administrative interference with trade. It was so throughout the old tariffist campaign : men of business habitually flouted the multiplication table, the rule of three, the evidence of eyes and ears. Only those who have recognized that there is such a thing as economic science are on their guard against the snares of sectional interest ; and it is perhaps only in virtue of the fact of one interest being so often opposed to another that

many business men have ever come to see straight in fiscal matters. It was not in general an abstract or scientific belief in Free Trade that led the English manufacturers of Peel's day to declare against Protection: it was the immediate or personal knowledge that they lost more by it than they could hope to gain when it meant taxation of food imports.

What is essential to right thinking on such problems is the application of economic science all round. Economists, truly, are not infallible; but their handling of the *pros* and *cons* does bring out the countervailing considerations in regard to each problem. There was no economist on the Balfour Committee; there is none in the War Cabinet. And so we get from each body in turn proposals which will not bear a moment's examination. During this war there has risen a practice of consulting business men on questions of administration—or rather let us say, the old practice of Government departments in that direction has been widely extended. But (perhaps on the score of the blundering advice given by the German economists, all of the "historical" school, to their Government in regard to food supply) our Governments have at no time bethought themselves of setting an economic problem to economists as such. If either the notion of "prohibition" of enemy produce or that of subsidizing Canadian freights as against those of the United States had been first put to the Political Economy Club for consideration and report, we might have had some conflict of opinion arising out of sentiment, but we should at all events have had an exposition of the consequences involved in both cases, and the proposals in question would not have been gravely introduced to the public.

The sentiment of politicians and the short-sighted self-seeking—or, it may be, the simple *esprit de corps*—of men of business are always formulating schemes which fall below the level of *good* sentiment and *good* business. The sentiment which satisfies or gratifies itself with a "tip" to the Dominions is visibly not very deep. A deeper sentiment will surely recoil from the thought of beginning a commercial war of undercut freights with the United States as soon as the war with Germany is over. A good business judgment would

surely see at once that a system of subsidized shipping between Canada and Britain would infallibly evoke a counter-ing system of subsidized shipping in the United States.

It may be pleaded in defence of the War Cabinet that the request for "shipping facilities" comes to us from Canada. But it has never been put by the Canadian people as a whole. In the old days when British tariffists were telling us that the Dominions would break away from the Empire unless they were "tipped," the people of the Dominions again and again indignantly repudiated the imputation. As Sir Robert Borden avows, the people of Canada will never demand that in their interest the people of Britain shall pay dearer for their bread. Then the matter is once more one of sectional interests. Not the peoples of the Dominions but certain trade interests among them seeking (naturally enough) for special gain, propose the scheme of subsidized shipping which attracts Mr. Lloyd George's Government. Whatever the origination, the economic rebuttal is instant and complete. The scheme will not work. It would mean simply a freight war, lamentably carried on between States which just before had been brothers-in-arms in the War of Wars.

For some, perhaps, the ground of attraction in such proposals is the growing concern for the development of the "resources" of the Empire. We need, they say, to exploit and conserve everywhere the means of production, the raw materials of industry. That may at once be granted; and it may well be that the home and Dominion Governments can usefully promote both exploitation and conservation. That is a problem for business men of the greater sort, men who can think for the State and for posterity as clearly and soundly as they do for themselves and their shareholders in trade and industry. But *fiscal* policy is a thing by itself, a problem of political economy, in which political and economic thinking conjoined are essential to sound decisions. And the empirical devices of tariffism and mere commercialism will only frustrate the process of developing national resources in any direction.

The problems of imperial exploitation are for the handling

of experts first and politicians afterwards ; for these things must be finally considered by the mother nation and the Dominions as a whole. But the matter of fiscal policy is one in which we at home must all take a hand from the start ; and when it is found that blind counsels are already being confidently given upon old lines of commercial fallacy, it behoves those concerned for fiscal sanity to speak out. It is all very well for the Balfour Committee to deprecate division. But they are helping to make it. Their plea, in effect, comes to something like this : that it would be a pity to have another tariffist battle in the middle either of war or the tangle of reconstruction, and that the best way to avoid strife would be to let the tariffists have their way to a certain extent. An import duty on German goods because they are German ; "some small duty" on some small quantity of half-manufactured imports to help some small body of capitalists in the Dominions ; some measures to check dumping ; some provision for "essential" and some for "important" industries—such are their sops to Cerberus.

Cerberus will not be so appeased. The sops simply stimulate his appetite. A minority of the Committee call for a general tariff of 10 per cent. on manufactures ; that is the lead that will be responded to outside by the many-headed aggregate of protectionism, or at least by a number of its sections. Half-hearted Free Traders who back the Balfour Committee in an amiable desire to keep truce with a movement which avowedly must break truce, are only helping to revive tariffism with the stimulants of war passion and uncalculating patriotism. And economic law, like "natural" law, is quite unresponsive to the sentiment that defies it. False steps will break or sprain the limbs of trade as surely as the legs of men—all the more surely when they are taken in a mood of carousal or sentimental oblivion. To ask us to put "sand in the works" by way of keeping truce with Tariffists who will never leave trade alone is to propose to put in jeopardy the healthy life of trade at a time when, by universal consent, it is about to be called on to work more smoothly and efficiently than ever for the financial recuperation of the State.

The Balfour Committee have at no point made out their implied case that "defects and dangers" in our trade system can be obviated by any tariff system. They have made a reasoned case only for (1) better *organization* of British trade in general—and this through the trades themselves (par. 119 and Ch. VII), not by means of any fiscal measures; (2) the collection by a State Department of *information* as to the available supply of metals and minerals, with a possible resort to the use of State assistance in exploitation in special cases (pars. 126-8); (3) the special development of supplies required for "essential" industries (129) and the assisting of these industries at home by subsidies administered by a special Department (Ch. V.); (4) the devotion of special attention by the Government to the question of financial facilities for trade and industry (par. 201); (5) special *ad hoc* measures against dumping; and (6) special fiscal protection to certain carefully selected branches of production.

A number of subsidiary recommendations as to housing, taxation reform, control of aliens, decimal coinage, etc., are well worth close consideration, but do not come within the scope of the present survey; and this applies broadly to questions of the financing of trade by the help of the State, the development of Imperial resources in raw material, and the better organization alike of production and commerce by trade combination. Our further examination confines itself to the proposals which involve a real or apparent clash with our established Free Trade policy. But to sift these thoroughly is at this stage a task of the first importance. The "general principles" which the Balfour Committee so nervously and so vainly eschew must be posited more definitely than ever. They are vital. It is indeed already a proof of superficiality to suppose that a general fiscal problem can ever be understood without a resort to general economic principles. That is the old fallacy of the self-styled "practical man," who merely proves his want of practical insight by proposing to settle from hand to mouth, in the light of a little recent experience, problems which involve a wide survey and call for searching tests. However briefly, the tests must here be put.

VI

THE MAINTENANCE OF ESSENTIAL INDUSTRIES

OF all the matters that have moved men to reconsider fiscal policy during the war, the most considerable has been that of the "key" or "pivotal" or "essential" industries—which might perhaps be more usefully grouped or labelled as "industries of primary military importance." It is, however extremely difficult to enumerate them. The Balfour Committee (Ch. V, embodying Fourth Interim Report) compile a list which is mainly one of essential *materials* :—

Synthetic dyes.
Spelter.
Tungsten.
Magnetos.

Optical and chemical glass.
Hosiery needles.
Thorium nitrate.
Limit and screw gauges.

Certain drugs.

There need be no debate on the general proposition that if any or all of these products are essential to military work, and are apt to be lacking in war through a habit of relying for them on importation, their manufacture may fitly be made a matter of State action. As the Committee point out, however, commodities which are at one time important may not be so at another ; while new commodities may come to be of vital importance. Any intelligent provision, then, must be a matter of special inquiry and special action. Accordingly the Committee sensibly advise that a special Board should have charge of the question. On the point of the method of maintenance, again, they are rather

prudently non-committal, but it is fairly clear that they do not recommend mere protection by means of tariff.

“The maintenance of efficient and adequate production *at reasonable prices*,” they submit, “must be the condition of the continued receipt by an industry of special State assistance in any form” (145, ext. 31). Assistance may be either financial or fiscal; and “where import restrictions *are* imposed for the purposes indicated in this Report the grant of licences [for importation] should be regulated by the advice of the Board. In any cases in which special protection may have been given against foreign competition by way of tariff or prohibition, it should be a function of the Board to consider complaints that such protection has been improperly used or has for any reason ceased to be in the public interest.”

There is small guidance here as to whether essential industries should be protected by a tariff; and we must just argue the question ourselves on the simple basis recognized by the Committee, that supplies must be available “at bedrock prices.” Take the case of synthetic dyes. A great State-aided concern has been set up for their production. Occupied to a large extent during the war on munition work, it may or may not require further State aid in peace-time. If it does, the required aid ought obviously to be given by way of subsidy. In no other way can we either test efficiency or be sure of maintaining supply at world prices. That is to say, “enemy” products must be admitted if we are to know how production goes on abroad and keep abreast of it; and home prices must be kept no higher than the foreign or “natural” level, which can be ascertained only by open market. Our textile trades must have their dyes at the lowest possible rates for successful competition with foreign producers who use German or other dyes.

And so with any other product employed in competitive manufacture. To tax imports of such things is to tax raw materials—the thing which representative Tariffists used to say they would never do. If, on the other hand, it be a matter of maintaining some “military” industry which does not hope to do a competitive export trade, the proper course

is demonstrably the same, unless it be that of manufacture by a State factory. Suppose, for instance, that the making of field glasses should after the war have to be maintained for military reasons by the State, the required assistance is properly to be given by subsidy, as in the case of dyes, if the State does not see fit to set up its own factory. A tariff would not only make field-glasses more expensive here than elsewhere—which in itself might be no great hardship—but would prevent us from knowing what improvements were being made abroad and testing the progressiveness of the home producers.

And if it be argued that State-aided concerns, being State-controlled, would be likely to be less efficient than private enterprises—which is the common objection to making them State industries—the answer is that the risk of inefficiency is notoriously created by all tariff measures. Protected industries commonly prove either their partial inefficiency or their uneconomical management by appeals for increased protection. Under a system of State aid by subsidy it will at least be the business of the responsible Board to check inefficiency and look to the interest of the consumer. For that matter, a State which builds its own warships and makes its own guns might very well make field-glasses for its army. But as regards the general consumer, subsidy is in every way preferable to tariff, if there is to be interference at all. Under tariff systems it is nobody's business to protect the consumer, whom the State gives up to private plunder; and there is no security for efficiency. In the United States many of the protected industries have notoriously been worse waged and less progressive than those which in the nature of the case cannot be protected.

Though, then, the Balfour Committee do not in so many words report against tariff protection of the essential industries which they discuss, and seem at times to contemplate it as one of several expedients, their general principles (for they do in this connection recognize such) point dead against it. And any attempt to make an economic case for a tariff policy in this connection will be found to be a mere tactic of making the needs of "key" industries the stalking-horse of tariffism

in general. The worst of it is that tariff-seekers are so generally ready to defend imposts which they know cannot help them, in the hope of obtaining imposts that will. Every manufacturer of textiles knows that dear dyes will be a heavy handicap to his industry ; but some hope to " make good " by import duties on their own products, which the home consumer will pay. Unless, however, the business men of the nation are infatuated enough to forget what the Balfour Committee fully recognize, that competitive export trade is the Achilles heel of British industry in the years ahead, the taxation of any essential trade material whatever will be vetoed by the nation.

Even this, it may have occurred to the thoughtful reader, is not the last word on the problem of " essential " or " safety " industries. We have thus far taken it for granted that however good may be the Peace that closes the World War, however extensive the disarmament, no Government can well be expected at once to banish absolutely the thought of the possible recurrence of war, to the extent of abandoning every precaution in the way of keeping military industries on foot. But on the other hand it will be really a Bad Peace that gives no sense of security whatever ; and to assume that every sort of " safety " industry must be maintained in full efficiency at any cost is to take for granted that the Peace must be a bad one. And this in effect seems to be done by those who call for a policy that shall make Britain self-feeding. In terms of the " essential industry " principle they have a *prima facie* justification. Nothing is more essential than food. But to make self-support a ruling principle of national policy irrespective of peace terms is to foreordain the partial sacrifice of British industry. And if that be the outcome of a thoroughgoing policy of upholding " safety " industries, that policy had better be vigilantly re-examined.

It is quite certain that a self-feeding Britain cannot be a Britain with the trade and the population it had in 1913. Not only would much of the population have to be turned from the more wealth-earning work of manufacturing to the less wealth-earning work of field industry : the former export

could not possibly be maintained (as apart from that required for a time to pay debts abroad) when the large former import of food ceased. A great shrinkage in shipping and in ship-building would in due course follow. Thus a self-feeding Britain, while remaining unalterably an island Power, would be navally much weaker, by reason of its restricted mercantile marine basis. And inasmuch, further, as no country in the world can escape occasional bad harvests, the self-feeding policy might really involve the maximum danger, since a period of crop failure might conceivably be chosen by an enemy to provoke war, while our restricted mercantile marine might be inadequate to the business of importing, even supposing the rest of the world was ready and willing to supply our need. At present, buying constantly from all the world, we have potential supplies everywhere. On a self-feeding basis, we should not have them. An increased agricultural output, certainly, there ought to be; and a land policy to that end is clearly called for. But it should be a part of the general policy of improved economy in production, not one of seeking to be self-feeding without regard to total economic production. Many kinds of food we must always import: the question of what we shall grow for ourselves should remain one of economic adjustment, a making the best of all our resources alike. The ideal of absolute security being chimerical, it can be no good guide to economic policy.

It begins to be clear, then, that a "safety" policy may be as shortsighted as any other. And the fact is that the present preoccupation with the idea is in itself rather shortsighted. It excludes from reflection the far more imminent problem of peace terms. If we secure a really good peace, a Disarmament Peace, there can be little immediate urgency in the question of "safety" industries. At the worst, the world that has been bled and blighted by the World War could not soon be ready for another. At the best, there may never be another, among "civilized" nations, so-called. The maintenance of industries essential to military safety, then, is not really a pressing one in the sense in which problems of reconstruction and industrial reorganization are pressing.

But there it is : the old Tariffist interests see a new opening : patriotic loathing for Germany may be exploited to Tariffist ends ; and the war-consciousness of the military importance of certain industries may be primarily exploited by planning for their maintenance on Tariffist lines. So the problem of "protecting" somehow the "essential" industries opens the door for protection to other "important" industries, and then to the policy of protecting industries in general. There is nothing for it, then, but to thrash the case out, piece by piece.

VII

THE PROTECTION OF "SELECTED" INDUSTRIES

WHERE the Balfour Committee give the most dangerous encouragement to tariffism is in their proposal, before cited, that "some" Government assistance should be given to industries described at that point not as "essential" but "important for the maintenance of the industrial position of the United Kingdom." It is to be given where such industries droop because of (a) "undue" foreign competition, (b) inadequate supplies of raw material, or (c) "any other causes." This is somewhat staggering, and one is further puzzled by the fashion in which the Committee slip back from "important" to "essential." When they come to precise prescription, or as near to it as they can get, they recommend (par. 227) :—

1. That protection by means of customs duties should be afforded *only* to carefully selected branches of production which must be maintained *either* for reasons of national safety or on the general ground that it is undesirable that any industry of *real* importance to our economic strength should be allowed to be *weakened* by foreign competition or brought to any serious extent in this or other ways under alien domination or control; and

2. That such protection should not in any case be accorded until a searching examination has been made into all the circumstances of the branch of industry by a competent and independent authority, which should take into consideration the sufficiency of other measures to secure the object in view.

The general comment on this pronouncement will be that it will satisfy neither Tariffists nor Free Traders. The last thing that Tariffists want is a searching inquiry into

the circumstances of a trade by a competent and independent authority; and the idea of a process of selecting trades for protection—picking out the really lame ducks for the time being—strikes a Free Trader as fantastic. No trade, once put on crutches, will ever admit that it can go on without them. It is not surprising, therefore, to find a number of members of the Committee dissenting from Chapter IX, in which fiscal policy is handled. Thus Lord Faringdon, Sir Charles Henry, Sir Gerard Muntz, Sir Charles Parsons, and Mr. Scoby Smith, plump for “a general tariff of 10 per cent. *ad valorem*, excluding foodstuffs and thoroughly raw material.” They think it “would have the effect of giving the home manufacturer security against *unfair* competition, and this would encourage him to increase his output *by the erection of the most modern machinery and plant, thereby reducing the cost, and cheapening his products to the consumers while enlarging his capacity to employ labour,*” and so forth.

Here we have a string of the empirical formulas of ordinary tariffism, without a scrap of evidence to justify them. A hundred times has it been pointed out by Free Traders—

1. That a 10 per cent. tariff is never found to satisfy the protected manufacturer. The Balfour Committee describe the devices used in Canada and the States, under a far higher tariff, to give the manufacturer still further protection against “unfair competition,” otherwise dumping.

2. That tariffs never lead to a cheapening of prices to the home consumer, because—

3. The protected manufacturer prefers dumping abroad to selling cheaper at home. And further,

4. The avowal that the protected manufacturer presumably has *not* up-to-date plant and machinery is a confession that it is the ill-managed businesses that call loudest for protection.

Compared with such thoughtless empiricism as that of the minority, the guarded recommendations of the majority are almost impressive; and when we find the Protectionist five declaring: “We regard subsidies and bounties as economically unsound,” we can only ask where they acquired the

economic notions of soundness that inspired the farrago of fallacy above considered.

Sir Alfred Booth makes a more competent criticism of the majority's tariff recommendations when he says they appear to him to be “of the kind most calculated to create uncertainty and destroy confidence.” He further thinks, however, that a low general tariff would make little difference for good or evil; a view apparently shared by Mr. A. F. Pease, who, likewise dissenting from Chapter IX, points out that in the ups and downs of trade the task of proving efficiency would be one of extreme complexity, but assents to the recommendation of Lord Faringdon's group that there should be an *ad valorem* tariff on manufacturers not exceeding 10 per cent. Only Sir Clarendon Hyde and Sir Archibald Williamson dissent from the majority's tariff scheme without suggesting a general tariff, Sir William McCormick merely disclaiming any opinion on the subject. Thus while nineteen members sign the general Report, only ten agree to its “conditional” tariff, while seven propose a general tariff of 10 per cent. The ten, who include the Chairman, Sir William Pearce, M.P., and Sir William Priestly, M.P., all professed Free Traders, apparently regard themselves as making something of a stand against tariffism; while at least one of the seven, Sir Charles Henry, was till recently a professed Free Trader, as were Sir A. Booth and Mr. A. F. Pease, by apparent implication. In such a state of opinion among such a widely representative Committee, it is of public importance to point out how ill supported by economic reasoning are any of the recommendations under notice. Those of Lord Faringdon's group are simply the naïve theory-spinning of the platform Tariffist addressing an unsophisticated audience. Sir Alfred Booth and Mr. A. F. Pease, who can see what a ferment of uncertainty would be set up by a conditional tariff, with perpetual elaborate investigations into the condition of trades which may be doing badly one year and well the next, profess the comfortable opinion that a 10 per cent. tariff would be no serious harm, or, as Mr. Pease prefers to put it, would be “to the advantage of the country.” Sir Alfred Booth's view is

supported by no reasoning ; Mr. Pease gives six reasons, all of them bad :—

1. It would enable us to give a preference to other parts of the British Empire and to our Allies.

2. It would enable us to give reductions to countries who are willing to enter into satisfactory commercial treaties with us.

3. It would enable us to penalize enemy countries.

4. Such a tariff might slightly increase prices in the first instance, but, if the investment of capital in the construction of new works or bringing old ones up to date were encouraged thereby, it would in many cases result eventually in an actual reduction.

5. Such a tariff would be so low that there would be no danger of the public being exploited or necessity for Government control of the trades affected.

6. Incidentally it would bring in a certain amount of revenue to the Exchequer, though the amount under pre-war conditions would not be large.

Let us take them seriatim.

1. One proposal is justified on the score that it would give a basis for another, which in turn is not justified at all. And Mr. Pease proposes not only to give a preference to our Dominions but a second preference to our Allies, thus involving the penalizing of Neutrals, who will be to that extent pushed into the arms of Germany.

2. At the same time, he proposes to make special arrangements with Neutrals who may give us good commercial treaties. Then the preference to Allies may be counter-balanced.

3. The penalizing of enemy trade is treated as a good thing in itself, without an attempt to show that it involves any advantage to us or will even be free from disadvantage.

4. Mr. Pease makes the same worthless promises as are made by Lord Faringdon's group, necessarily failing to support them by any evidence from experience, because all such evidence is against them. Thus to assert that a certain result *would* occur, when in all known cases the result has been otherwise, is to adopt the methods of the charlatan.

5. The plea that the proposed tariff is low, and would not exploit the consumer, is of the same order. All protective

tariffs, as Mr. Pease is well aware, begin low : they invariably rise. But 10 per cent. on all imports is plainly a gross exploitation of the consumer ; and Mr. Pease’s remark that the resulting revenue would not be large is unintelligible. It formed a considerable bait in Mr. Chamberlain’s hands.

6. The raising of revenue “ incidentally ” is a proof that the public is being exploited. The public pays everything and the exploiter pockets the same amount on his home sales.

It is hardly necessary to point out, further, that if the effect of a 10 per cent. tariff is to promote the cheapening of production by causing the creation of new labour-saving plant, a 20 per cent. tariff ought to be still more effectual in that direction.

And Sir Alfred Booth’s contention that a 10 per cent. tariff will make very little difference—coming from a former Free Trader—is a strong encouragement to the same line of inference. If 10 per cent. does not matter, the public, obviously, can stand another 10 per cent. And if past experience is any guide, we may pretty confidently forecast that if once the “ low ” tariff is imposed, it will in a few years’ time be raised at the demand of the very men and classes who had declared that 10 per cent. would give them “ security ” and also secure their installation of the most up-to-date machinery. And there will be no shame on anybody’s part over what will have been an enacted fraud. The distinguished and reputable politicians who promised that 10 per cent. would suffice will see no adequate reason for hanging their heads. They never do. For the men who have been pocketing the 10 per cent.—or what is left of it after the usual all-round rise in costs—will be spending millions on deluding the country and corrupting the electorate, and above all on explaining to the unemployed workman of the time being that he is unemployed because the tariff is not high enough, and so allows foreign goods to come in.

For the unemployment will come, as it has come under every tariff system. Nowhere has it recurred more frequently and extensively than in the high-tariffed United States : the worst episodes here have been results of American collapses. To this mountainous fact tariffism always wilfully closes

its eyes, at the same time diligently throwing dust in the eyes of the public. And the check to employment will begin, in a country so largely dependent as ours on its export of manufactures, as soon as the tariff is imposed. When production is resumed, all the manufacturing nations will set to the same task, production on the largest paying scale, for financial recuperation. Every wilful and avoidable addition to costs, at such a time, is the purest folly. While Sir Alfred Booth airily pronounces 10 per cent. a trifle, the manufacturers of cottons know that in their competition with Japan, extra costs on their lubricants, their belting, their machinery, their dyes, and their colours, are all to the bad. Again and again the Balfour Committee point to the Japanese competition as the main trade portent in the East. And still the majority plan to raise costs by protecting "selected" industries, while a large minority plan to raise costs all round.

The fatal futility of the majority proposals becomes clear when we puzzle out what it is that they mean by "selected" industries. After repeating (par. 227) their stipulation that something should be done for the "national safety" industries and those "of importance to our economic strength," they refer us to paragraph 215 for a list of "the important industries which will require consideration." The list referred to runs:—

For example, the heavy iron and steel trades, and numerous branches of the manufacture of iron and steel goods; the engineering trades, including electrical and motor engineering; many branches of the chemical trades; *the textile trades almost as a whole*; the manufacture of various classes of rubber goods, especially tyres; and the leather industries.

The idea is, then, that scores of investigations into the circumstances of scores of trades shall begin either now or immediately after peace, by way of ascertaining whether they need protection; and it will be the business of the "competent and independent" authorities who conduct the investigations to go on watching the trades, feeling their pulses, examining the books, noting the markets, the prices,

the wages, the dividends—in order to know how long the protection is properly to be continued. It is somewhat difficult to suppose that a body of practical men could really reckon on the actual adoption of such a policy. A trade might qualify for protection in one year and be plainly unentitled to it in the next—from the point of view of a really “competent and independent authority”; while the traders themselves would never for a moment admit that they were other than needy and deserving objects of public support.

As Lord Faringdon’s group point out, the demand for protection is now made by representatives of the following trades :—

Iron and steel.	Silk.
Engineering.	Linen.
Electrical.	Lace and embroidery.
Woollen and worsted.	Cotton hosiery and gloves.
Carpet.	Non-ferrous metals (<i>re</i> lead).

On the other hand, the only trades that collectively and officially repudiate protection are cotton, jute, and shipbuilding—jute, however, stipulating for a “first claim on the export of jute from India.” And while cotton is willing to go without crutches, the majority put it among the industries which will require consideration as to their need for protection.

It is not difficult to foresee that most of the people who attach any weight at all to the general suggestion will turn in preference to the straightforward protectionism of the minority of seven, and decide to give protection to all industries alike. Why not, for instance, protect glass bottles, paper, jewellery, watches and clocks, furniture, pianos, fancy goods, and things in general, as well as the staples enumerated? And if 10 per cent. *ad valorem* is going to improve machinery and cheapen production and increase employment, why not *force* it on the cotton trade and on shipbuilding? Ten per cent. on imports of ships, as Sir Alfred Booth might put it, would probably do no harm, since we do not normally import ships; and while they are scarce we may as well get revenue out of any we buy. Full-blooded quackery

has a much more comforting ring than the faltering and paltering suggestions of the Majority Report—a feature not to be disguised by the orotundity of the style.

And the same difficulty arises about its handling of the ever-prominent and popular problem which served the Tariff-ists so well in the past—the problem of dumping. That too called for re-examination at the present crisis.

VIII

DUMPING

A FEW plain truths may usefully precede a discussion of the Balfour Committee's suggestions on this theme. Dumping, always described by Tariffists as "unfair competition," is simply the slang name for stresses of competition which producers practise against each other in times of slack trade; and these extremer forms of competition are only extensions of the normal practice of competition. All competition, broadly speaking, takes the form of "under-cutting." The more progressive manufacturer, with the better plant or the better business organization, or the better judgment in buying, is able to produce cheaper and sell cheaper than his rivals, whether at home or abroad. Those at home, whether or not they call his competition unfair (as they frequently do), must either come down or approximate to his prices or go out of business. They sometimes do the latter, but generally the former. That is the simple general process of competition.

When it is the foreign producer who invades the home market, the spontaneous course of the home producer is to call the competition unfair (or "undue" as the Balfour Committee so pathetically put it), and call for a protective tariff. They frequently affirm that he sells thus cheaply because he employs "cheap labour." Since the foreign competitor is usually situated in a tariff-protected country, this obtrudes the awkward proposition that tariff-protected labour is more poorly paid than labour under Free Trade. And as the aggrieved producer in Britain is occupied in

persuading the workers that they would be better paid if we had a tariff, he is thus in the painful position of destroying his own political case.

To do him justice, it must be admitted that he never sees this at the outset. He never sees anything beyond his own immediate need until unfeeling Free Traders point out that he is idiotically contradicting himself. Then, with no sense of shame over his blunder and his virtual fraud, he usually proceeds to garble the facts. Sometimes he will even produce figures to show that the "cheap labour" employed by the foreigner is after all well-paid labour—better paid than home labour. Both propositions have been abundantly circulated by the Tariffist organizations. But as that bifrontal dialectic involves obvious disadvantages, the tariff-seeker in general is fain to withdraw to the safer line of protesting that the foreign competition is unfair, that it creates unemployment, and that only a tariff can remedy the evil.

But here candour compels mention of the fact that the British producer also "dumps" his products from time to time on the tariffed country. While the Protectionist minority of the Balfour Committee cheerfully proclaim that a 10 per cent. general tariff will give "security" to the home producer, the majority produce their overwhelming evidence from Canada and the United States to show that it does nothing of the kind. The tariffs there are far above 10 per cent.; yet Canada in 1907 passed her Customs and Tariff Act to prevent the dumping from which Canadian trade chronically suffers; and so recently as 1916 the United States has passed An Act to Increase the Revenue and for Other Purposes, with a special set of provisions against "unfair competition."

The competition in question, be it observed, is just such as the Canadian and American producers, or some of them, themselves practise from time to time against other countries and each other. "Dumping" is the convenient slang term which reduces it all to a business footing. The Majority Report defines the word as meaning "the sale of goods in a particular market at prices lower than those at which the goods are currently offered in the country of manufacture";

and the Canadian and U.S. Acts adopt that conception. But it is obvious that if Britain, say, can undersell Canadian and American producers in Canada and the States by going a little below the British market price, the high Canadian and American tariffs have given a very poor protection, after all their promises. Whether the anti-dumping Acts are really applied on the principles therein laid down, we need not inquire : the really important fact is that it may be as easy for a Free Trade country to dump on a protected one as *vice versa*, or even more easy. For if the protected country has a 30 per cent. tariff, which in due course raises its prices and costs all round 30 per cent. above the Free Trade level, the British producer need in the end only cut his prices about 5 per cent. in order to enter the protected market, while the protected producer has to lower his about 35 per cent. in order to enter the British market.

And it is one of the beauties of Protection in general that it always elicits the practice of selling dear at home and cheap abroad. The home consumer pays high prices to enrich the home producer, who, when he has a surplus stock, never dreams of letting his compatriots have the benefit of a reduction in price, but promptly proceeds to sell it cheap in foreign markets. That is how the romantic ideal of "making the foreigner pay" works out in practice. What is most flagrantly "unfair" in the business is the cold-blooded fleecing of the home consumer. As regards his cheap sales to the foreigner, the protected producer is only doing what the Free Trade producer does at a pinch. In a word, all countries, protected or unprotected alike, chronically "dump" on each other. The pretence that either a high or a low tariff will prevent it is a preposterous imposture ; and the Protectionist minority of the Balfour Committee expose themselves to derision by vending it.

The majority recognize that the question is an extremely ticklish one, and decline to adopt the suggestions made to them for the prohibition or confiscation of dumped goods, or the compelling of shipowners who have imported them to carry them back. They seem dimly to realize on the one hand that dumping may involve benefits to other industries

than that dumped upon ; and on the other they quite realize that the business of stopping it is rather hopeless. Even in the United States, public opinion has so far advanced that the law of 1916 against dumping lays the responsibility of veto on a judicial tribunal (not, as in Canada, on an administrative body), and puts the proviso that the alleged dumping must " be done with the intent of destroying or injuring any industry in the United States " in order to be liable to suppression. As the Committee note, the proving of such an " intent " would be a highly problematical task. It is quite certain that in most dumping there is no " intent " beyond getting rid of surplus stocks ; and an " intent " to drive a competitor out of business is about as likely to operate on the part of one home producer against another as on that of any producer or corporation against another in another country.

As usual, the majority of the Balfour Committee fall back on a compromise—a course, indeed, hardly to be wondered at when such a multitude of trade interests are clamouring for protection. While admitting (par. 222) that " there may be special cases in which temporary prohibition might be necessary," they " on the whole recommend " that we should adopt something like the Canadian plan, but without restricting the special " anti-dumping " duty, as Canada does, to 15 per cent. The Committee prefer that the Board of Customs and Excise should collect information from the British trade organizations as to whatever dumping may take place, and should then lay on the dumped import an impost equal to the difference between the actual price and the " fair market price," however large that difference may be. Which goes to show that the forces making for Socialism are more numerous than might be expected.

For all these appeals for protection against the ups and downs of trade are but so many demands to be saved from the drawbacks of individualism while enjoying its advantages. If the manufacturer is to have his high profits in good times and to be also saved the annoyance of being undersold by the surplus stocks of foreigners in bad times, he will infallibly have to take reciprocal obligations in the end in respect of

his duty to employ his workers. Society, including as it does the workers, is not long going to guarantee him his profits without exacting from him the maintenance of the workers. Already a guarantee of profits has been given to farmers as a measure of national safety, with a quite inadequate reciprocal guarantee of decent wages to the labourer. If the demand for the farmers' guarantee is renewed, it will assuredly evoke a demand for the nationalization of the land. The guaranteeing of safe incomes to one class at the risk of all the rest is a process that no nation will long tolerate. Let the tariff-seekers look to it.

Now, dumping is visibly one of the natural results of the world-system of competitive production, and from the point of view of each nation as a whole it is no more an evil to be legislated against than any turn in the market which enables a certain number of buyers to buy more cheaply than usual. The dumping that is unfair competition from the point of view of one set of producers—themselves often as “unfair” in their own competition—may be a boon and a blessing to another set. A good many years ago the British tinplate trade was in a depressed state as a result of the prohibitive McKinley tariff on their product in the United States. During the year of forewarning, the trade made immense profits, American canners buying all they could in advance: then the trade fell on hard times. But soon it came about that German producers of steel were dumping on the British market at prices much below those previously current, and that cheap steel was the salvation of the tinplate trade. An “anti-dumping” duty would have prevented the salvation, in the interests of the British producers of steel, though in point of fact the saving of the tinplate trade meant the saving of their own future market.

It may be worth while to recall another result of the whole episode. The revived tinplate trade sought new markets in other parts of the world—in Central America, South America, New Zealand, and elsewhere—and by offering cheap cans to fruit-growers and other agriculturists in those regions set them upon new canning industries, which then successfully competed with those of the United States. The latter were

thus doubly injured by the tariff set up in the interests of the American tinplate trade. The first effect was to cause enormous quantities of food to be allowed to rot, because the cost of canning had become prohibitive. Then, when prices were readjusted, came the fresh blow of the new competition elicited by the British tinplate trade. Thus the tinplate tariff inflicted incalculable loss on great branches of American trade for the purpose of putting money in the pockets of the single class of tinplate-makers.

In the light of such experience, the business of legislating against dumping becomes a problem that is beyond intelligent handling by Tariffists. Theoretically, a Government might see fit to take steps, not to prohibit or send back dumped goods—that would be a folly worthy of savages—but to buy up a dump in order to secure that its distribution should take place with the least possible disturbance of the home market. In that way, theoretically speaking, the nation might collectively make its profit on the dump, taking the goods the dumper offered; and it is conceivable that some Government will some day try such an experiment. But if, perchance, there is a depressed industry which the cheap dump might save, is the Government to step in and avert the boon in the interest of the home trades which sell the article at a price that the depressed trade cannot afford to pay? If the British Government does such a thing it may look out for a squall. The British people have not latterly been educated for submission to policies protecting one private interest at the expense of all the rest.

If our Government thinks itself competent to manage an anti-dumping law on either the Canadian or the U.S. lines, let it produce its scheme. He will be a bold administrator who would undertake to operate it; and in view of the experience not only of the States and Canada but of Germany and France—for every industrial country, tariffed or untariffed, has experience of dumping—we shall probably be well advised to leave dumping to the rectification which can be brought about by the better organization of production all round. The process always stands for miscalculation. If men planned better it would far more rarely happen, and its

disturbing effects might become negligible. But if avarice, *alias* enterprise, continues to bring about chronic over-production, sellers' avarice will not cure the trouble by proclaiming that buyers' avarice must not be allowed to have play.

The residual truth of the whole inquiry is that so far such "defects and dangers" inhere in the very nature of competitive trade, and that the devices of tariff-makers to safeguard their profits belong to a level of commercial thought still lower than that which incurs the chronic risk of over-production. The defects and dangers of twentieth-century trade are not to be cured by a reversion to the mediæval machinery that was already beginning to be discredited in the eighteenth. And if the fatal backward step is to be taken, if the empirics are to have their own way in Britain as a result of the dethronement of good sense in the tornado of war, it is very conceivable, not to say probable, that the backward turn in Britain may coincide with a forward turn on the part of the enemy whom our empirics are so concerned to penalize for penalty's sake, without an earthly idea of any resulting good to ourselves. Free Trade in Germany as an accompaniment to a relapse into Protection in England—that, truly, would be the crowning irony of all the ironies of history. It is surely, then, worth the citizen's while to contemplate the possibility before, between the palterings of faltering Free Traders on one hand and the claptrap of sciolist Tariff Reformers on the other, he casts a despairing vote for the policy of the Greatest Folly of the Greatest Number.

IX

WHAT WILL GERMANY BE DOING ?

THAT Germany after the war may adopt a policy of Free Trade will doubtless strike most people as highly improbable. A year or two ago a sporting gentleman offered to bet the present writer a hundred to one, or something of that kind, that it will not happen. If the wager could be put in a form in which a great reduction of tariffs would count as a progress towards Free Trade—and that is of course the way it is most likely to happen—the sporting adventurer would perhaps not hold to his offer. But on those lines the change seems to some of us not at all unlikely ; and if Britain plays the fool to the extent of setting up a tariff, and there is any political wisdom left in Germany, it will happen.

For if Germany can but get access to raw materials, as we have seen she must if we are to have a Good Peace without a tremendous prolongation of the war, it will assuredly be to her interest to gravitate to Free Trade as quickly as possible ; and if Britain throws away her great heritage, the gain to Germany of picking it up will be immediate, to the eye of economic science. As it happens, economic science is not very highly developed in Germany, where the almost exclusive devotion to the " historical side " has testified to the lack of faculty for the analytic side : and the ruinously bad advice given by the Professors to their Government in the matter of killing the pigs is understood to have put their authority at a discount. But there may be business men in Germany, as there have been and happily still are in

Britain, with economic heads ; and they may be able to grasp the situation.

Let us remember the fundamental fact in that situation. For three years the German people have been on short rations ; their first need and most overpowering call after the war comes to an end will be for decent meals. The German food duties, like those of the other Protectionist countries of Europe, were suspended soon after the outbreak of war. When will the Government dare to reimpose them ? The Junkers are already—they began two years ago—demanding their reimposition immediately after the war. But when we remember that in the last election the Socialist Party polled an enormous vote mainly on the strength of its crusade against the food duties, it seems sufficiently unlikely that the Junkers will carry their point. If we secure a Disarmament Peace they certainly will not ; for such a peace will mean the downfall of Junkerism in Germany, and the emancipation of the German people in their own despite.

Now, the food duties in Germany form a vital part of the whole tariff structure. When Bismarck, formerly a Free Trader, resorted to a tariff policy in the seventies to secure a new revenue for military needs, he obtained it by offering protection simultaneously to landowners and to manufacturers. Protection could not be had on one side without giving it on the other. But when the two great interests joined hands they were irresistible. If, then, protection is now withdrawn from the agricultural interest, can it be maintained for the manufacturing ? Years before the war Professor Brentano of Munich, who has an economic head, though his ethical head was not good enough to save him from the common German hallucination about the causation of the war, predicted that the German tariff would break down first on the side of the food duties, and that the tariff on manufactured goods would soon follow, simply because the agricultural population would not consent to a tariff which heavily increased its costs without giving it any compensation. The chances are that Brentano was right.

For everything will conspire to make Free Trade expedient for Germany after the war. Her population is too impover-

ished to pay high prices for manufactured goods ; the home market can be made only by selling as cheaply as possible. Imports of competitive manufactures are not to be feared. Her people will be as loath to buy the manufactures of the Entente Powers as we can be to buy hers. The one motive for the maintenance of the tariff system would be the need for revenue ; and in the terms of the case the revenue obtainable would be next to nothing once the food duties were gone.

German *labour* will in all likelihood be cheaper immediately after the war than British, without being proportionately inferior. German dyes and colours, according to our Protectionists, will also continue to be cheaper. The one thing (apart from special financial burdens) that could keep her costs of production at any point higher than ours would be import duties on foods or on semi-manufactured materials of any kind. Is she likely, then, to impose them? Will she even impose them on machinery or on leather? It is plainly her cue not to, as her trading class cannot hope to gain anything from them until her stagnant commerce has been restored. If they see as much, Germany will resume her life with at least the burden of tariffs off her shoulders. Are we to resume ours with it on?

He who can say yes to that question is well qualified to pilot a nation to disaster. But such pilots there always are ; and the present Government seems prepared so to function. On May 13th last certain questions were put and answered in the House of Commons :—

SIR E. CARSON asked the Prime Minister whether the Council of Ministers in France has denounced all commercial conventions containing a general clause regarding most-favoured nations ; whether the object of such denunciation is to leave the country's hands free for the time when peace arrives ; and whether it is the intention of His Majesty's Government to adopt a similar course, having regard to the probable shortage of raw material after the war and the necessity of providing for the requirements of the British Empire and her Allies.

Mr. BONAR LAW : The answer to all the parts of this question is in the affirmative.

SIR E. CARSON asked the Prime Minister when His Majesty's Government would make a statement of the progress made amongst

the Allies in carrying out the policy agreed to in the Paris Resolutions.

Mr. BONAR LAW: It is intended to make a general statement either before the reintroduction of the Imports and Exports Bill or at the time when it is reintroduced.

Sir Edward Carson's question was evidently prearranged. The Government is now committed to the denunciation of all commercial treaties under which we give and receive most-favoured-nation treatment, and this is ostensibly the first step in a Tariffist policy. It stands to reason that we cannot get better treatment from other nations than we have had under a system of Free Trade; we can only get worse. Thus we are already heading for the rapids.

The various political aspects of the question need not be here and now discussed. A Government which came into power as a result of friction between its head and his former colleagues, and which represents a combination ostensibly for the one purpose of "getting on with the war," is now apparently using its position to upset Free Trade once for all. It has adherents in all three British Parties—Conservative, Liberal, and Labour. If such a combination can be brought to support a sectional policy long definitely identified with Tariffist Conservatism, the prognosis will indeed be bad.

It is for the democracy to look to itself and gird up its loins. On the course taken over the Imports and Exports Bill may depend the direction given to British industrial and political destinies at a most fateful hour. Battle, it would seem, must be joined—the Tariffists in power will have it so. If ten years of keen controversy and public education have counted for anything, the result will be the resolute proclamation of the democratic majority that one of the most precious historic gains of the cause of freedom and goodwill on earth shall not be cast away at the behest of opportunism and passion. If otherwise, the pen will probably undo what the sword has been drawn to do.

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